

## Message Text

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AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 MCT-01 /085 W  
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R 101915Z SEP 76

FM AMCONSUL SAO PAULO

TO SECSTATE WASHDC 7185

INFO AMEMBASSY BRASILIA

AMCONSUL RIO DE JANEIRO

AMCONSUL BELEM

AMCONSUL SALVADOR

AMCONSUL RECIFE

AMCONSUL PORTO ALEGRE

C O N F I D E N T I A L SECTION 1 OF 2 SAO PAULO 2119

E.O. 11652: GDS

TAGS: OVIP PAULO EGYDIO MARTINS, PFOR, BR

SUBJ: SAO PAULO GOVERNOR REVIEWS BRAZIL'S CURRENT POLITICAL AND  
ECONOMIC SITUATION AND PROSPECTS

REF: SAO PAULO 1430

1. BEGIN SUMMARY.

SAO PAULO GOVERNOR PAULO EGYDIO MARTINS, A CLOSE CONFIDENT OF THE  
PRESIDENT, GAVE CONGEN AN ESSENTIALLY UPBEAT VIEW ON THE POLITICAL  
SITUATION, BUT EXPRESSED SOME CONCERN ON ECONOMIC TRENDS. HE  
FEELS THAT CONSERVATIVE OPPOSITION FROM EX-PRESIDENT  
MEDICI WILL NOT DETER PRESIDENT FROM LIBERALIZATION PROGRAM.  
NOR WILL RIGHT WING BOMB THROWERS. THERE IS GREAT POLITICAL  
SIGNIFICANCE TO PRESIDENT'S POPULARITY. IT MEANS HE WILL  
BE ABLE TO CONTINUE LIBERALIZATION PROGRAM AFTER SCORING A VICTORY  
IN NOVEMBER MUNICIPAL ELECTIONS. DIRECT ELECTIONS FOR  
GOVERNOR IN 1978, WILL BE HELD, EVEN IF IT MEANS  
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ALLOWING THE MDB TO WIN IN SAO PAULO, AND POSSIBLY ELSEWHERE.

GOVERNOR WAS LESS SANGUINE ABOUT ECONOMIC SITUATION. HE LAMENTED THE LACK OF A FEDERAL ECONOMIC COORDINATOR AND THE RESULTING POLICY CONFUSION. IN SAO PAULO, FOR EXAMPLE, THE FEDERAL GOVERNMENT RENEGED ON AGREED BUDGET SUPPORT. PAULO EGYDIO FEELS THE ECONOMY WAS ALLOWED TO OVERHEAT IN THE FIRST HALF OF THE YEAR, MAKING DRASTIC RESTRICTIVE MEASURES AFTER THE ELECTIONS A NECESSITY.

2. SAO PAULO GOVERNOR PAULO EGYDIO, A CLOSE CONFIDENT OF PRESIDENT GEISEL, PROVIDED THE CONSUL GENERAL WITH A COMPREHENSIVE REVIEW OF BRAZIL'S CURRENT POLITICAL AND ECONOMIC SITUATION AND TRENDS IN A 40-MINUTE PRIVATE INTERVIEW SEPTEMBER 9.

3. POLITICAL:

(A) TRADITIONAL POLITICAL RIVALRY BETWEEN MEMBERS OF SUCCEEDING GOVERNMENTS. MEDICI AND ANDREAZZA SPEECHES SHOULD BE UNDERSTOOD IN THE LIGHT OF THE TRADITIONAL RIVALRY BETWEEN MEMBERS OF TWO DIFFERENT GOVERNMENTS IN BRAZIL'S "AUTOCRATIC REGIME." PAULO EGYDIO HAD LIVED THROUGH MUCH WORSE ATTACKS BY MEMBERS OF THE CASTELLO BRANCO GOVERNMENT. MEDICI'S LINE WAS CLEAR. HE WANTED TO ROLL BACK PRESIDENT GEISEL'S POLICY OF "DISTENTION" AND CERTAINLY KEEP HIM FROM MAKING ANY FURTHER ADVANCES TOWARD A MORE DEMOCRATIC "SOLUTION". MEDICI WAS SUPPORTED BY ONLY A HANDFUL OF RETIRED MILITARY AND EX-OFFICE HOLDERS WHO HAD NO POLITICAL WEIGHT TODAY WHATSOEVER.

(?) PRESIDENT GEISEL IMMENSELY POPULAR AND STRONG: THE BASIC POLITICAL FACT IN BRAZIL TODAY WAS THAT PRESIDENT GEISEL WAS IMMENSELY POPULAR. THE GOVERNOR HAD DETAILED AND UP-TO-DATE PUBLIC OPINION POLLS WHICH CLEARLY DEMONSTRATED THIS (HE WAVED HIS HAND GENERALLY IN THE DIRECTION OF HIS DESK). IT WAS THE MOST NATURAL THING IN THE WORLD FOR THE PRESIDENT TO DON HIS PARTY'S GARB AND GO OUT ON THE HUSTINGS TO OBTAIN THE BEST POSSIBLE VOTE FOR THE ARENA IN THE NOVEMBER MUNICIPAL ELECTIONS. A PRESIDENT UNDER THE BRAZILIAN AUTOCRATIC SYSTEM WAS ALWAYS SUBJECT TO PRESSURES FROM ALL SIDES, AND IT WAS ESSENTIAL FOR GEISEL TO HAVE THE VALIDATION AT THE POLLS OF HIS PERSONAL POSITION AND OF HIS DESIRE FOR FURTHER DISTENTION WHICH WOULD COME FROM AN ARENA VICTORY.

(C) ARENA WILL WIN A MAJORITY OF MUNICIPALITIES NATIONWIDE  
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IN NOVEMBER: THERE WAS ABSOLUTELY NO QUESTION THAT THE ARENA WOULD WIN A MAJORITY OF THE MUNICIPAL CONTESTS IN EACH STATE THROUGHOUT THE NATION. CERTAINLY THIS WAS THE CASE IN SAO PAULO, WHERE THE MDB WOULD NOT WIN EVEN 200 OUT OF THE 571 MAYORALTY RACES IT WAS CLAIMING, THE RESULTS WOULD BE A CLEAR VICTORY FOR THE AREA AND ABOVE ALL THE PRESIDENT. THE GOVERNOR CONCEDED IN PASSING THAT IT HAD BEEN A POLITICAL MISTAKE TO TALK ABOUT A PLEBISCITE AND TO LOOK FOR AN ABSOLUTE

MAJORITY OF THE TOTAL VOTES CAST. THE IMPORTANT THING WAS THAT THE ARENA WOULD WIN AND WOULD WIN BIG IN NUMBERS OF MAYORS AND CITY COUNCILMEN ELECTED. (COMMENT: GOVERNOR PAULO EGYDIO HAD TAKEN THE SAME GENERAL LINE A FEW DAYS EARLIER WITH THE VISITING UK MINISTER OF STATE FOR AGRICULTURE, FISHERIES & FOOD, THE BRITISH CONSUL GENERAL HAD INFORMED ME SEPTEMBER 7.)

(D) PRESIDENT GEISEL WILL PURSUE DISTENTION GUARANTEEING DIRECT ELECTION OF GOVERNORS IN 1978. AFTER WINNING IN NOVEMBER, THE PRESIDENT WOULD BE FREE TO PURSUE HIS POLICY OF DISTENTION WHICH GOVERNOR PAULO EGYDIO REFUSED TO CHARACTERIZE EXCEPT TO STATE THAT THE DIRECT ELECTION OF GOVERNORS IN 1978 WOULD BE THE NEXT STEP. THE GOVERNOR SAW NO DIFFICULTY IN THE MDB TAKING OVER THE SAO PAULO STATE GOVERNMENT, IF THAT WERE HOW THE 1978 ELECTIONS SHOULD TURN OUT. ALTERNATION IN POWER AS A REAL AND NOT JUST A THEORETIC POSSIBILITY WAS ESSENTIAL FOR FURTHER PROGRESS TOWARD DEMOCRATIZATION. WITH HIS HAND STRENGTHENED BY THE 1976 ELECTIONS, PRESIDENT GEISEL WOULD HAVE NO DIFFICULTY IN MOVING FORWARD TO THIS POSITION. (COMMENT: THE DIRECT ELECTION OF GOVERNORS IN 1978 IS, OF COURSE, CALLED FOR UNDER EXISTING CONSTITUTIONAL PROVISIONS, AND THE MDB HAS A BLOCKING THIRD IN CONGRESS TO PRECENT RATIFICATION OF AN AMENDMENT. NEVERTHELESS, GOVERNOR PAULO EGYDIO HAS IN THE PAST BEEN AN OPPONENET OF HOLDING THE 1976 MUNICIPAL ELECTIONS ON THE PRESENT BASIS. ALSO, THE GOVERNOR HAS PREVIOUSLY ADVOCATED THE DISSOLUTION OF THE TWO EXISTING POLITICAL PARTIES, BUT IN OUR CONVERSATION HE CLEARLY IMPLIED THE CONTINUITY OF THE PRESENT BIPARTY SYSTEM. HE WAS EVEN MORE DIRECT IN HIS CONVERSATION WITH THE UK REPRESENTATIVES RECENTLY.)

(E) RECENT BOMBINGS WORK OF RETIRED MILITARY AND SMALL RIGHTIST MINORITY: THE RECENT BOMBINGS OR ATTEMPTED BOMBING OF THE BRAZILIAN PRESS AND BAR ASSOCIATIONS IN RIO WERE THE WORK OF THE CONFIDENTIAL

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EXTREME RIGHT, RETIRED MILITARY (DE PIJAMA) AND OTHER RADICALS. THE BOMBINGS IN PORTO ALEGRE AND AT CEBRAP IN SAO PAULO WERE THE WORK OF AMATEURS. (COMMENT: WHILE THE FORCE OF THE BOMB IN SAO PAULO WAS MUCH SMALLER THAN THAT OF THE RIO BOMB EXPLODED, THE FORCE WAS SUFFICIENT TO DO SOME DAMAGE AND THE IMPORTANT EFFECT IN ALL CASES WAS PSYCHOLOGICAL RATHER THAN THE AMOUT OF DAMAGE INFLICTED, SINCE NO ONE WAS HURT IN ANY OF THE INCIDENTS. (SEE BRASILIA 7825) THE OBJECTIVE OF THE RADICALS FROM THE RIGHT OR THE LEFT WAS TO PREVENT THE NOVEMBER 1976 ELECTIONS, AN OUTCOME WHICH HE DISCARDED, OR TO STOP OR HAMPER PRESIDENT GEISEL FROM PURSUING HIS DESIRED LIBERALIZING COURSE AFTER THE ELECTIONS. (COMMENT: THE GOVERNOR CAREFULLY OMITTED ANY REFERENCE TO HIS PREVIOUS EFFORTS TO CONVINCE THE PRESIDENT NOT TO HOLD THE NOVEMBER 1976 ELECTIONS.)

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C O N F I D E N T I A L SECTION 2 OF 2 SAO PAULO 2119

(F) DELFIN NETTO AN UNLIKELY GOVERNOR: DELFIM NETTO'S ANNOUNCED CANDIDACY FOR THE GOVERNORSHIP OF SAO PAULO WAS A POLITICAL FACT OF LITTLE IMPORTANCE. HE HAD EVERY RIGHT TO BE A CANDIDATE, AND HE HAD APPEAL IN CERTAIN SA PAULO BUSINESS CIRCLES, BUT THERE WAS A LONG ROAD TO THE NOMINATION BY THE ARENA PARTY AND A LONGER ONE TO THE GOVERNOR'S CHAIR.

(G) PRSIDENT GEISEL WILL CONTROL THE CHOICE OF HIS SUCCESSOR IN 1978. SPEAKING OF THE FUTURE, PRESIDENT GEISEL WOULD NOT ALLOW ANY-

ONE NOT ANYONE TO PRESSURE OR MANEUVER HIM INTO A DECISION ON THE SUCCESSION QUESTION. ANYONE WHO THOUGHT OTHERWISE SIMPLY DID NOT KNOW THE PRESIDENT AND HOW TOUGH HE WAS. A VARIOUS TIMES IN THE PAST, THE GOVRNOR HAD BEEN BESIEGED BY PROMINENT LEADERS WHO TOLD HIM THAT THE PRESIDENT WAS ON THE ROPES OR WAS NO LONGE IN CHARGE OR THAT GENERAL FROTA WAS ACTUALLY CALLING ALL THE SHOTS. THE GOVERNOR HAD REJCECTED ALL THESE PROPHETS OF DOOM. THE PRESIDENT WAS STRONGE THAN EVER AND WOULD

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MAKE HIS DECISION IN 1978 AND NOT A MOMENT BEFORE. IT COULD BE FIGUEIRIDO (HEAD OF SNI) OR FROTA (MINISTER OF THE ARMY), OR REYNALDO (I ARMY) OR DILERMANDO (II ARMY). PRESIDENT GEISEL WOULD MAKE HIS DECISION IN THE FULLNESS OF TIME, AND WHOEVER TRIED TO ANTICIPATE HIM WOULD FIND HIMSELF FALLING INTO A SERIOUS POLITICAL ERROR. THERE WAS NO SNESE FORMING CABALS OR LAUNCHING BOOMLETS. CERTAINLY THE MEDICI/ANDREAZZA GROUP WERE PUSHING FORWARD THE NAME OF FIGUEREIDO, BUT IT WOULD NOT SWAY THE PRESIDENT.

#### 4. ECONOMIC SITUATION AND TRENDS

(A) LACK OF NATIONAL ECONOMIC COORDINATOR: WHILE PRESIDENT GEISEL WAS CLEARLY IN CHARGE AND IN CONTROL IN THE POLITICAL AREA, HIS METHOD OF WORK HAD NOT ALLOWED HIM TO APPOINT A PRIME MINISTER SUCH AS DELFIM NETTO OR ROBERTO CAMPOS. PRESIDENT GEISEL PREFERRED THE EXPRESSION OF DIVERSE VIEWS, AND IT WAS A FINE SYSTEM, BUT THE GOVERNOR HAD TO CONCEDE THAT THERE WAS A MAJOR LACK IN A SINGLE COORDINATOR OF ECONOMIC POLICY. ONE MINISTER SAID ONE THING, ANOTHER CONTRADICTED HIM, AND STILL A THIRD HAD ANOTHER IDEA.

(B) SAO PAULO'S STATE BUDGET DIFFICULTIES: TO ILLUSTRATE HIS OWN EXPERIENCE THE GOVERNOR LUNCHED INTO A LONG DISSERTATION ON HIS STATE BUDGET DIFFICULTIES IN 1976. HE HAD REVIEWED THE BUDGET IN DETAIL IN SEPTEMBER 1975 WITH BOTH MINISTER OF PLANNING REIS VELLOSO AND MINISTER OF FINANCE SIMONSEN BEFORE ANNOUNCING IT, AND THEY HAD BOTH PROMISED HIM THAT THEY WOULD SUPPORT THE ISSUANCE OF C\$7.5 BILLION IN STATE BONDS DURING 1976, OF WHICH C\$2 BILLION WOULD BE A ROLL OVER AND C\$5.5 NEW MONEY. THEY HAD RENEGED ON THEIR AGREEMENT AFTER HIS BUDGET YEAR WAS HALF OVER. THEN, AFTER VEHEMENT PROTESTS, THEY HAD ALLOWED HIM TO ISSUE C\$3.5 BILLION WHICH HE WAS PLACING WITH THE STATE SAVINGS BANK, THE NATIONAL HOUSING BANK, AND ANOTHER PUBLIC INSTITUTION, KEEPING THEM ENTIRELY OUT OF THE OPEN MARKET. HE HAD CUT BACK HIS BUDGET SO THAT HE COULD SLOW DOWN STATE INFRASTRUCTURE PROJECTS BUT NOT PARALYZE THEM, EVEN IF HE DID NOT OBTAIN THE REMAINING C\$2 BILLION (WHICH HE DID NOT REALLY SEEM TO EXPECT). HE HAD JUST COMPLETED HIS BUDGET FOR 1977 THE PREVIOUS DAY. THIS TIME HE HAD NOT EVEN CONSULTED THE FEDERAL GOVERNMENT. HE HAD THREE OPTIONS; A REALLY TIGHT BUDGET, ONE WITH A DEFICIT OF CR\$8 BILLION WHICH HE EXPECTED TO FINANCE BY ISSUING MORE

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STATE BONDS AND BORROWING UP TO \$200 MILLION FROM THE MORGAN

GUARANTY (NEGOTIATIONS ALREADY UNDERWAY), AND A THIRD EVEN HIGHER BUDGET SHOULD TAX REVENUES TURN UP. HE WAS PREPARED TO RELY ON TAX REVENUES ALONE, IF NEED BE, BUT HE COULD NOT RELY ON THE FEDERAL GOVERNMENT. HE WAS GOING TO GO HIS OWN WAY. RESPONSIBLE MANAGEMENT OF THE BUDGET OF HIS STATE (WHICH HE CONFIDENTIALLY ESTIMATED FOR 1977 AT CR\$67 BILLION ON THE SECOND OPTION WITH ANOTHER CS12 BILLION OF EXPENDITURES BY STATE ENTITIES) WAS HIS CONTRIBUTION TO RESPONSIBLE MANAGEMENT OF THE BRAZILIAN ECONOMY. THAT WAS ALL HE COULD DO.

(C) EXCESSIVE GROWTH RATE REQUIRED DRASTIC CORRECTIVE MEASURES AFTER THE NOVEMBER ELECTIONS. THE GOVERNOR THOUGHT THAT IT HAD BEEN A MAJOR ERROR TO ALLOW THE GNP RATE TO INCREASE SO RAPIDLY IN THE FIRST HALF. IT WOULD HAVE BEEN MUCH BETTER FOR CONTROL OF INFLATION AND REDUCTION OF THE B/P DEFICIT TO HAVE KEPT THE ANNUAL RATE TO THREE OR FOUR PERCENT OR EVEN LESS. INSTEAD IT WOULD BE SIX OR SEVEN PERCENT AND THE TASK WOULD BE MUCH HARDER TO LIMIT GROWTH NOW. INFLATION AND B/P DEFICITS WERE OLD AND KNOWN PROBLEMS FOR BRAZIL. THE ORDERS OF MAGNITUDE MIGHT HAVE CHANGED BUT THE PROBLEMS WERE THE SAME. THE WORST OF ALL POSSIBLE SOLUTIONS WAS TO TAKE DRASTIC RESTRICTIVE MEASURES ON THE EVE OF THE NOVEMBER 15 ELECTIONS, BUT HE THOUGHT THAT THE GOVERNMENT MUST AND WOULD TAKE SUCH MEASURES IMMEDIATELY THEREAFTER. THERE WAS NO OTHER SOLUTION.  
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## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PERSONAL OPINION, PROVINCIAL GOVERNOR, POLITICAL SITUATION, ECONOMIC TRENDS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 10 SEP 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** greeneet  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
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**Disposition Remarks:**  
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**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
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**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
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**Previous Channel Indicators:** n/a  
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**Previous Handling Restrictions:** n/a  
**Reference:** 76 SAO PAULO 1430  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** greeneet  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 12 JUL 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <12 JUL 2004 by CunninFX>; APPROVED <25 OCT 2004 by greeneet>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** SAO PAULO GOVERNOR REVIEWS BRAZIL'S CURRENT POLITICAL AND ECONOMIC SITUATION AND PROSPECTS  
**TAGS:** OVIP, PFOR, BR, (MARTINS, PAULO EGYDIO)  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006